

# Econ 323

# Economic History of the U.S.

Prof. Eschker

Spring 2016

# Today's Topics

- Hand Back 5-minute papers/essays
- Finals office hours:
  - Fri May 6, 12-1
  - Mon May 9, 1-2
  - Tues May 11, 2-3
- Final Study Tips posted
- Krugman
- Class wrap-up

# Krugman

# Krugman (written in 2000)

- Will the US remain the leader in standard of living (GDP per capita) and economic might (GDP)?
- Potential competitors?

# Asia

- **Japan** is close in GDP per capita
  - “lost decade” of the 1990s
  - But still lots of innovation
  - *Update: 2000s bad too*
- **China** can become largest economy
  - Depends on growth rates
  - About 7% over last decade (very fast!)
  - Takes about 10 years to double using Rule of 72
  - *Update: No clear signs of slowing. Will they open markets?*

# Europe

- **A unified Europe** is very large
  - *Eurosclerosis*
  - The Euro
  - Political considerations key
  - *Update: Hard hit by global financial crisis/painful unification. Greece and the current Euro crisis.*

# Krugman (sees the future!)

It is tantalizing to speculate about the tone of public discourse in five or ten years if those who assert that America is now a “bubble economy” like that of Japan a decade ago turn out to be right. It is very easy to imagine how, in retrospect, many economic sins that are now widely regarded as trivial—negative personal savings, a large trade deficit, the role of highly leveraged investors in our financial markets—could be reinterpreted as the American equivalent of “crony capitalism,” fatal flaws that ensured the subsequent punishment.

# Krugman

“Above all, it is very hard to imagine how the kind of supremacy the United States once had—when it outclassed every conceivable rival on every dimension you could think of—could ever reemerge. America will not dominate the world economy the way it used to, not because it is doing something wrong, but because many other countries are also doing something right. And that is good news for everyone.” p. 175



# Krugman

Comments?

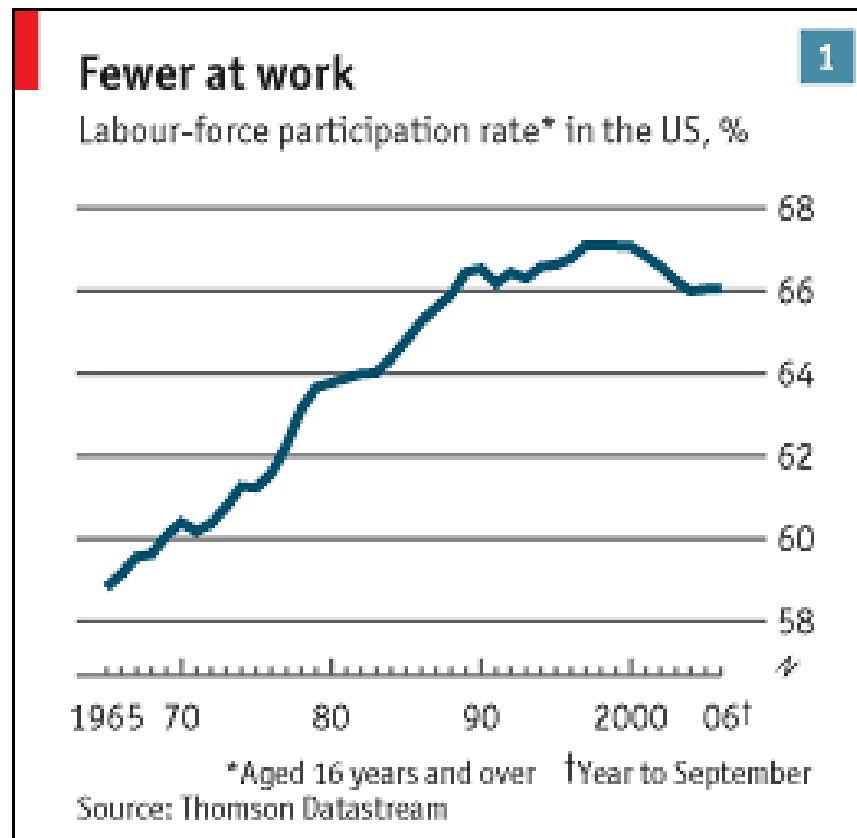
# Decrease in “Potential Output”

If there is no unemployment, then potential output depends on the number of workers and worker productivity:

$$\textit{output} = (\textit{workers}) \times \left( \frac{\textit{output}}{\textit{worker}} \right)$$

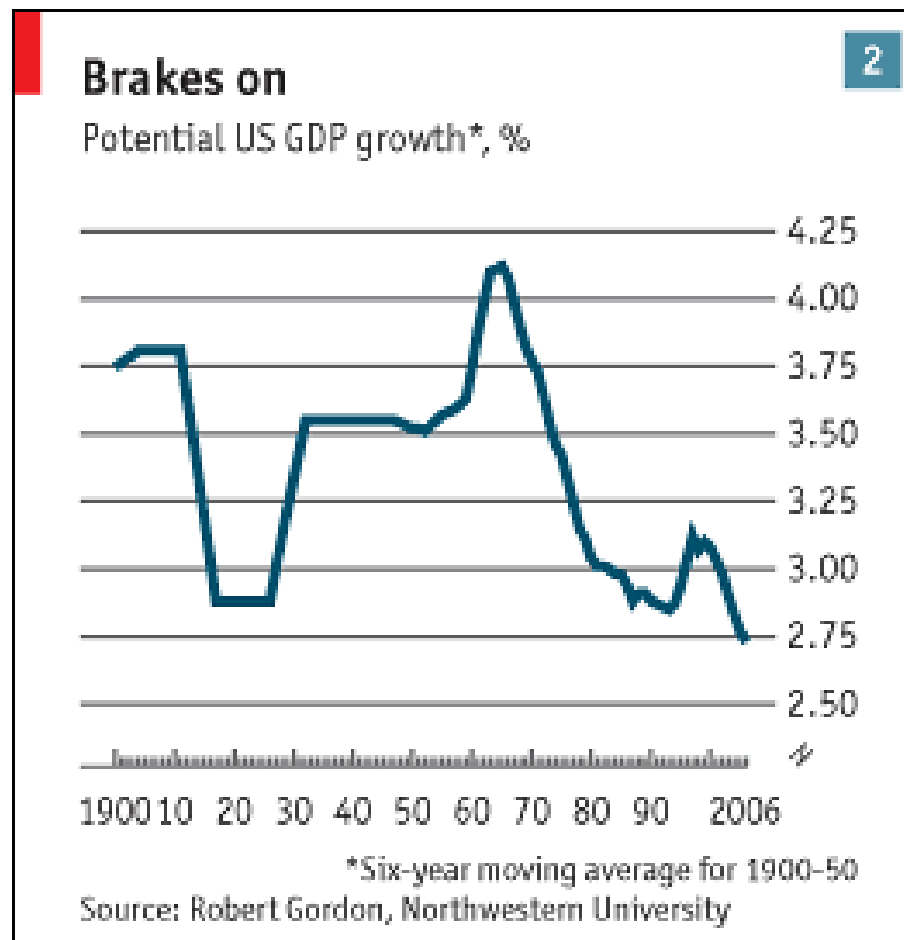
# Decrease in “Potential Output”

- Labor force participation rates have fallen
- Productivity *may* be rising (Gordon)



# Decrease in “Potential Output”

- Potential GDP growth rates are down since the 1960s



# Big Issues for the Future

- Convergence in GDP
  - Will other countries converge to US standard of living? (Krugman)
  - Which country will be leader?
    - History: Northern Italy, Holland, Britain, U.S.
    - Future: Japan?

# Big Issues for the Future

- Inequality
  - Up since 1975 (Lindert)
  - Poverty rates fell in 1960s, but leveled off since 1970s
  - Will taxes become more progressive?
  - How does education affect equality?
  - What about immigration?

# Big Issues for the Future

- Savings rates low
  - Negative recently!
  - Related to housing bubble?
  - Leads to lower capital stock in future, and lower productivity
  - Lower wages in future
  - *Savings rates rose during the Great Recession of 2008*

# Big Issues for the Future

- Will there be another global financial crisis?
  - Great Depression II?
  - New financial regulation?
  - Soak it to the rich?
  - Era of high taxes/low growth?
  - Most important: How flexible will financial sector be in adapting? Will it resort to “business as usual?”
- Healthcare changes?



# Big Issues for the Future

- Others?

**One hundred years from now,  
will historians look at today  
as the "beginning of the end"  
or as the "beginning of the  
greatest period in U.S.  
history?"**

# Course wrap-up

Course Objective: After completing this course the student will be able to

- 1) identify significant and defining events in U.S. history from 1600 to today
- 2) explain the interaction of distinct U.S. regions
- 3) explain the relationship of the U.S. to foreign countries and its consequences
- 4) illustrate the role of major ethnic groups, cultures, social groups, and other minorities in shaping U.S. history
- 5) demonstrate how the persistence of institutions has provided a continuous American experience
- 6) demonstrate how economic incentives have played a role in shaping U.S. history and
- 7) recognize the research methods used by economic historians.

Good luck on the Final!

